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CREDIT OPINION
22 June 2023

Update

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RATINGS

Africa Finance Corporation

	Rating	Outlook
Long-term Issuer	A3	Negative
Short-term Issuer	P-2	--

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Africa Finance Corporation – A3 Negative

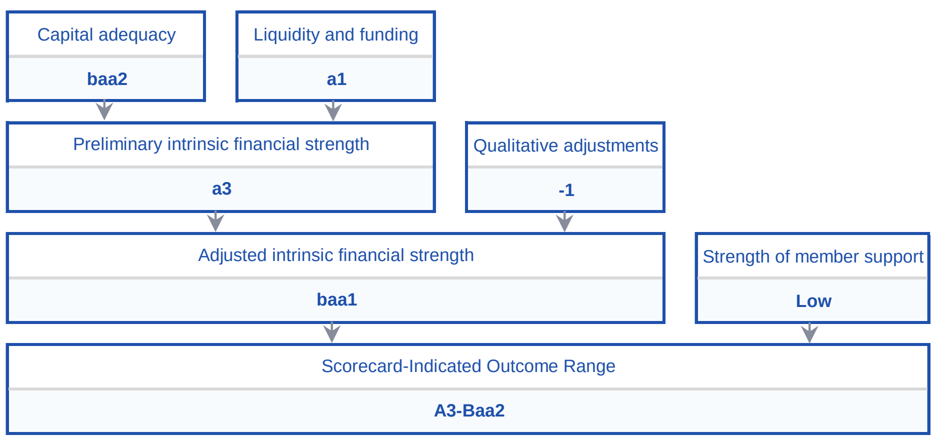
Regular update

Summary

The credit profile of the Africa Finance Corporation (AFC) reflects borrowers' increasing exposure to country risk and a concentrated and low credit quality shareholder base following the downgrade of Nigeria's rating to Caa1. Meanwhile, the capital buffer has narrowed. The credit profile is supported by significant liquidity buffers and access to diversified funding sources. Moreover, the adoption of credit protection measures have helped maintain a relatively low level of nonperforming assets.

Exhibit 1

AFC's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

» Sound core liquidity enhanced by demonstrated access to market funding

» Effective credit protection measures that mitigate borrowers' increased country risk exposures

Credit challenges

» A difficult operating environment, which affects asset quality

» Weak and concentrated shareholder base, which constrains ability to support

Rating outlook

The negative outlook captures the risks to the AFC's rating related to pressure on its development asset credit quality (DACQ) because more than 50% of its portfolio is now to borrowers operating in very low-rated sovereigns, in particular in Nigeria (Caa1 stable) and to a lesser extent in Ghana (Ca stable) and Gabon (Caa1 stable); and on the credit quality of its concentrated shareholder base following the downgrade of Nigeria's sovereign and financial institutions ratings. The AFC's starting capital position is relatively weak compared with that of A-rated peers, which risks undermining the corporation's capacity to manage pressure on asset quality and shareholders' creditworthiness.

Factors that could lead to an upgrade

The outlook could be returned to stable if the AFC's leverage metrics improve in line with the corporation's strategic plan and with A-rated peers while it maintains good asset performance, liquidity buffers and access to funding. This would reverse a trend of steady erosion of its capital adequacy over the years as the corporation expanded its activities on the continent. A sustained improvement in the AFC's countries of operations would also be positive.

Factors that could lead to a downgrade

We could downgrade the ratings if asset performance were likely to weaken significantly. An inability to implement the corporation's strategy aimed at strengthening its capital base would also be credit negative. Furthermore, a marked erosion of liquidity buffers or increasing signs that access to funding is weakened significantly would also likely lead to a downgrade.

Key indicators

AFC	2017	2018	2019	2020	2021	2022
Total Assets (USD million)	4,161.8	4,487.5	6,118.8	7,363.2	8,564.9	10,527.8
Development-related Assets (DRA) / Usable Equity [1]	140.0	150.1	214.3	213.1	223.7	266.0
Non-Performing Assets / DRA	12.3	2.5	1.1	1.8	2.5	2.0
Return on Average Assets	2.6	3.0	3.5	2.5	2.6	3.0
Liquid Assets / ST Debt + CMLTD	777.1	947.3	367.7	595.9	620.1	563.2
Liquid Assets / Total Assets	52.3	54.7	48.7	48.3	45.3	47.4
Callable Capital / Gross Debt	0.0	0.0	0.0	0.0	0.2	0.3

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Investors Service

Profile

In 2007, the Africa Finance Corporation (AFC) was established in Lagos, Nigeria as a Multilateral Development Bank (MDB) through a collaboration between the Central Bank of Nigeria (CBN), a consortium of African nations, and private sector investors. AFC operates with pan-African objectives, providing support for public-private partnerships in collaboration with commercial banks and entities. Nigeria, through the CBN, is the AFC's largest shareholder with 38% of paid-in capital as of year-end 2022, followed by mostly Nigerian financial institutions accounting for 47%. Investment-grade shareholders hold a combined share of 4%. The corporation's purpose is to promote infrastructure development in Africa; facilitate African trade generally and export-oriented trade in particular; contribute to the development of energy and extractive industries; provide on-lending and refinancing facilities to African financial institutions; and promote investments in Africa. The sectors prioritized include Power & Renewables, Transport & Logistics, Heavy Industries, Natural Resources (oil, gas, and mining) and Telecommunications and Technology.

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

FACTOR 1: Capital adequacy score: baa2

The AFC's "baa2" capital adequacy captures our expectation that AFC's leverage will improve in 2023 and then stabilize as the institution strengthens its capital buffer against the weaker operating environment in sub-Saharan Africa. AFC's asset quality remains supported by its effective credit protection measures that support asset performance, especially in time of higher country risk in its main countries of operation.

Leverage is likely to improve further in 2023 but remain weaker than that of A-rated peers

We use the leverage ratio to measure an MDB's capital position, comparing the size of its development-related assets (DRA) plus Treasury assets rated A3 and below against its usable equity. Specifically, DRA include loans (55% of total DRA in 2022), equity and mezzanine (or hybrid) investments (14% and 8%) in addition to off-balance-sheet commitments (23%). Over the past seven years, the AFC's DRA have expanded rapidly, reaching $7.2 billion as of year-end 2022 from $1.5 billion as of year-end 2015. Concurrently, usable equity increased to $2.7 billion in 2022 from $1.4 billion in 2015, mostly on account of consistently high profitability generating retained earnings. At the current levels, the AFC's leverage ratio exceeds the median of A-rated and global peers (see Exhibit 3).

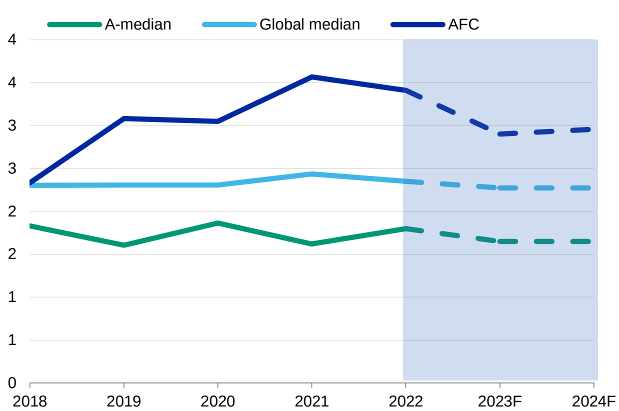
Based on the AFC's own prudential guidelines, its Basel capital adequacy ratio (excluding the $250 million borrowings included in Tier II capital) reached the lower limit of 30% as of year-end 2021 before improving to 31.5% in 2022. We expect the corporation to align the pace of the expansion of its operations more closely to its equity generation capacity to comply with its guidelines and improve its shock-absorption capacity.

Under the $1 billion equity-raising initiative for 2019-23 (representing a 60% increase in usable equity as of year-end 2019), the AFC has already raised $1.2 billion (or $934 million excluding the $250 million in Tier II borrowings), including $200 million in equity warrants by the CBN. The $1.2 billion also includes $294 million raised under the rights issue for existing shareholders launched in November 2022, with an additional $250-$350 million projected to materialize in the fourth quarter of 2023.[1] We expect the leverage ratio (Moody's-defined) to converge to about 3x, remaining above that of A-rated peers.

Exhibit 3

The AFC's leverage ratio will likely decline and level off in line with its prudential guidelines

(DRA + Treasury assets rated A3 and below)/usable equity (times)



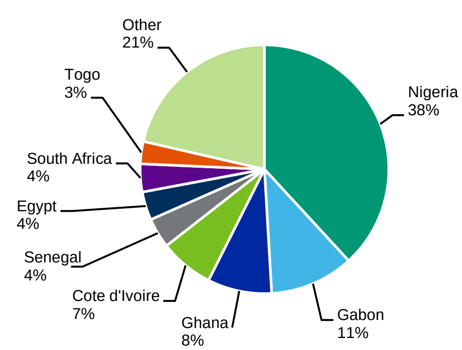
Global median and A-rated median assumes 2017-22 average.

Source: Moody's Investors Service

Exhibit 4

Nigeria hosts the AFC's largest share of operations

Proportion of total loans, equity/mezzanine, commitments in 2022, (%)



Source: Moody's Investors Service

Asset performance has been largely stable since 2020, as effective credit protections offet deteriorating asset quality

In terms of operational assets, the AFC has three main types of operations primarily in the private sector: medium- to long-term project and infrastructure finance loans with maturities of four to seven years; typically short-term trade finance loans with an average maturity of between one and two years; and equity/mezzanine investments with medium- to long-term commitments of between five and seven years. As of year-end 2022, the AFC had $3.8 billion in gross loans outstanding to borrowers in 29 countries, $1.1 billion in equity investments, $538 million in hybrid investments (mezzanine) and $1.7 billion in off-balance-sheet commitments. While the expansion in off-balance-sheet commitments could alleviate risk-weighted capital requirements, they are treated like other loans or equity exposures in our leverage calculation.

In addition to Nigeria, where the AFC is headquartered and where the majority of shareholders originate from (about 85%), operations extend primarily to Gabon, Ghana and Côte d'Ivoire (Ba3 positive) plus smaller exposures across the continent (see Exhibit 4). The AFC's portfolio is geared toward infrastructure projects with high development impact in the transport, heavy industries and telecoms, oil and gas, and power and mining sectors (see Exhibit 5). One example is Gabon's Arise Special Economic Zone industrial park launched in 2010, which is now being replicated in Togo (B3 negative), Benin (B1 stable) and Côte d'Ivoire.

We assess the AFC's DACQ at "b", primarily reflecting the low borrower credit quality capped at the sovereign risk rating and the relatively high share of equity/mezzanine investments in total DRA at more than 20%. However, effective credit protections help insulate the AFC's exposures from country risk in its areas of operation, reflected in an upward adjustment to credit quality and captured in our DACQ score at “b”. These measures include single-name and portfolio risk insurance covering more than 16% of the loan portfolio (up from 14% in 2021), and measures to avoid instances of foreign-exchange liquidity shortages affecting borrowers particularly in Nigeria or in the CFA franc zone. These measures include a focus on foreign-exchange generating transactions with international sponsoring partners, the institution of debt service reserve accounts and the negotiation of capital import certificates, in addition to foreign-exchange illiquidity insurance.

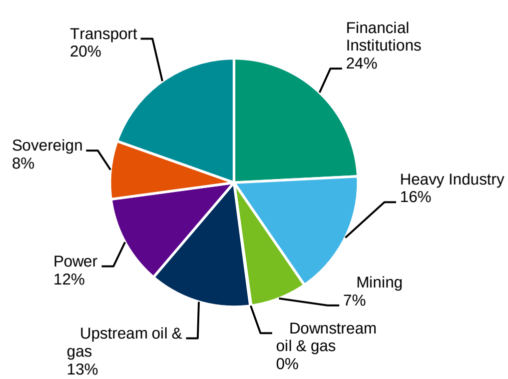
Exhibit 6 shows that the AFC's asset performance has performed in line with or better than the regional median over the past few years. Data for 2022 indicate that the nominal value of nonperforming assets has remained broadly unchanged over the past year, whereas the nonperforming asset ratio has improved to 1.7% of total DRA from 2.5% in 2021. This is lower than the regional average of between 2.5% and 3% over the past three years (the global median is about 0.5%-1% and the A-rated median 3.7%).

We expect the AFC's asset performance to remain in line with historical trends because of the corporation's proactive efforts to restructure loans at an early stage and because of its credit protections in place, including instances of preferred creditor treatment. For instance, notwithstanding Ghana's recent decision to cease external debt service payments, the AFC's development-related exposures in Ghana remain current under AFC's IFRS impairment assessment, while we expect any losses on Treasury asset exposures to be minimized because of the credit protections and provisions in place.

Exhibit 5

Exposures by sectors are well diversified

Share of total DRA (%), 2022

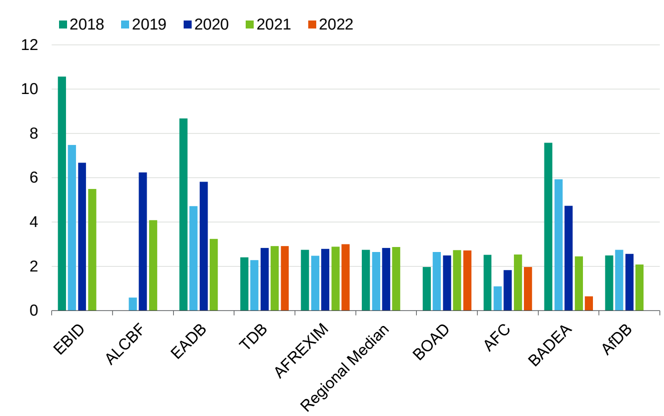


Sources: Africa Finance Corporation and Moody's Investors Service

Exhibit 6

The AFC's asset performance is in line with that of regional peers

Nonperforming assets/DRA (%)



Sources: Africa Finance Corporation and Moody's Investors Service

FACTOR 2: Liquidity and funding score: a1

The AFC's "a1" liquidity and funding score reflects our expectation that it will continue to adhere to its conservative liquidity policy and, in doing so, maintain solid core liquidity. At the same time, our assessment assumes continued access to diverse funding sources notwithstanding the difficult international financial market conditions. The AFC's availability of liquid resources (ALR) to cover the next 18-month cash outflows stands at 165% in 2022, and illustrates the capacity of the corporation to meet upcoming debt service payments and continue operations despite a marked deterioration in global market conditions. However, surplus treasury funds invested in securities issued by various governments in the region in line with the corporation's development mandate represent another source of potential losses, notwithstanding their coverage by provisions.

Conservative liquidity policy ensures high-quality core liquidity in addition to higher-yielding surplus funds invested in the region

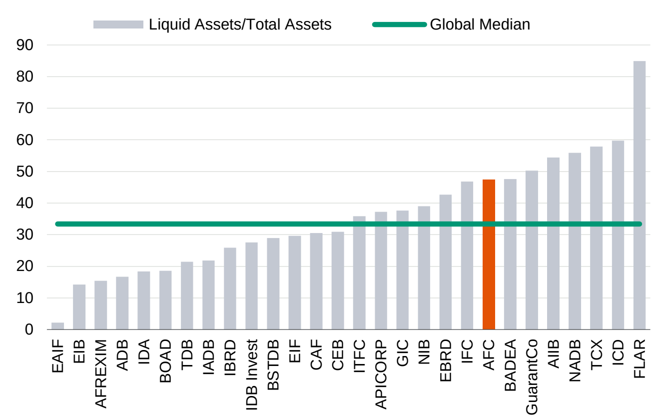
We assess AFC's liquid resources buffer at "aa2" and its quality of funding at "a", which reflect its conservative liquidity policy and strong core liquidity position relative to peers (see Exhibit 7 and 8)[2]. and the quality of funding, scored at "a". The corporation's ALR is unlikely to fall below 100% as long as it complies with its liquidity policy, which requires a minimum liquidity level (MLL) of 18 months of the sum of debt service (principal and interest), operating expenses, and other non-cancellable debt and equity commitments. This MLL requirement is covered by high-quality core liquidity held mainly short term with investment-grade banks or government bonds outside of the continent, and amounted to almost $3 billion as of year-end 2022. Surplus funds amounting to about $1.7 billion are invested in higher-yielding US dollar securities issued by governments on the continent, and held to maturity. While they are covered by provisions they represent another potential source of losses. Importantly, in our ALR assessment, we only take the stock of high-quality liquidity into account to measure the strength of available liquid resources.

Overall, total liquid assets amounted to 47% of total assets in 2022, which is higher than the global median at about 33% based on 2022 data. As a proportion of short-term debt plus currently maturing long-term debt, the AFC's stock of liquid assets stood at 563% in 2022, which is more than double the global median.

Exhibit 7

The AFC's liquid asset holdings are above the global median in 2022

Liquid assets/total assets (%)

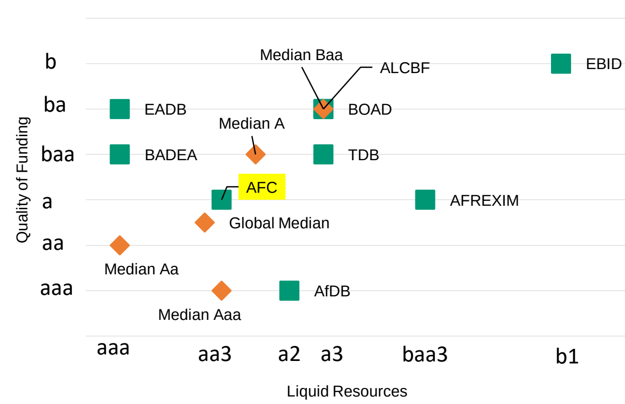


Liquid assets include high-quality liquidity and higher-yielding surplus funds
Source: Moody's Investors Service

Exhibit 8

Quality of resources and of funding defines an MDB's liquidity profile

Quality of funding: Y axis; Liquid resources: X axis, 2021



Liquid resources assessment is based on high-quality liquidity only
Source: Moody's Investors Service

The AFC maintains market access and a diversified funding strategy to optimize funding costs

The current liquidity position of the corporation provides the means to pay upcoming maturing obligations over the next 12 months without necessarily tapping the debt capital markets. Nonetheless, the corporation ensures the refinancing of most of the maturing obligations as they fall due to maintain a sound balance sheet.

Over the course of 2022, the AFC accessed €250 million and $100 million in funding from development finance institutions (DFIs) and $1.5 billion and €120 million from banks at more favorable conditions than in international capital markets. For 2023, the corporation's funding pipeline remains geared toward DFI and bank funding while maintaining the option of re-accessing capital markets in an opportunistic way. The AFC will seek to extend the maturity profile of debt to match longer-term assets while also seeking local-currency funding solutions to enable the corporation to fund infrastructure assets in local currency.

Debt service in 2023 amounts to about $864 million including mostly maturing bank loans and repo facilities. In 2024, maturing obligations will amount to $1.7 billion, including a $500 million eurobond maturing in April 2024. In 2025, about $1.6 billion fall due, including a $700 million eurobond maturing in June 2025.

Qualitative adjustments to intrinsic financial strength

Operating environment: -1
We apply a negative adjustment to reflect our view that the high risk facing AFC's borrowers in sub-Saharan Africa may ultimately weigh on its credit profile. In recent years, trade tensions and political uncertainty have weighed on global growth while persistent fiscal and external vulnerabilities amid volatile capital flows cloud the outlook in sub-Saharan Africa. The pandemic and inflation shock caused by the Russia-Ukraine conflict further weigh on the region's prospects, aggravating pressures on borrower credit quality. We have similarly applied negative adjustments to the AFC's regional peers, including African Local Currency Bond Fund (Baa1 stable), East African Development Bank (Baa3 stable), ECOWAS Bank for Investment and Development (B2 stable), and Eastern and Southern African Trade and Development Bank (Baa3 stable).

Quality of management: 0
We assess the strength of the corporation's financial management framework and its adherence to the framework as consistent with its A3 rating, and thus make no adjustment for the quality of management.

The AFC's stringent prudential ratios aim to ensure sound capital adequacy, insulate asset performance from a deteriorating operating environment via credit protections and reduce operational risks. As mentioned above, the corporation requires a minimum Basel II capital adequacy ratio of 30% — close to the current ratio of 31.5% based on Tier I capital alone, or 34.3% when taking into account Tier II capital, including $250 million in subordinated loans. It also requires a minimum liquidity coverage of 18 months of effective cash requirements. We expect these prudential guidelines to continue to be observed, underscoring the increased focus on raising equity to support the corporation's future balance-sheet expansion and improving leverage.

FACTOR 3: Strength of member support score: Low

We assess the AFC's strength of member support as “Low”, which takes into account a “b3” ability to support, a “ca” assessment of contractual support among members given the small amount of callable capital contribution at $23 million in 2022 after the change in the Charter in 2020, and a “Medium” assessment of non-contractual support among members. As a result, the AFC's credit profile reflects its intrinsic financial strength as represented by our assessments of capital adequacy and liquidity, and does not include any uplift from member support.[3]

Ability to support is constrained by a concentrated and low-rated shareholder base
The AFC’s ability to support is set at “b3”, based on its weighted average shareholder rating (WASR) of B3 taking into account the shareholder composition as of year-end 2022 and the most up-to-date ratings. The WASR is largely driven by the rating of Nigeria and Nigerian financial institutions, which together constitute 85% of the shareholder base, and the small share of investment grade shareholdings amounting to 4% of the total (see Exhibit 9).

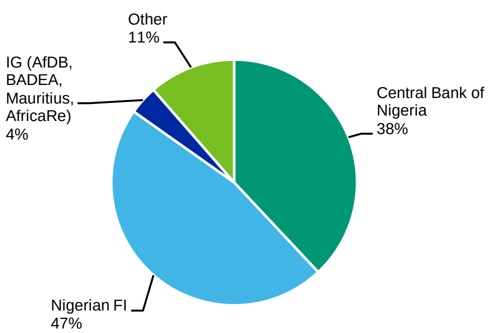
While the AFC has been successful at raising additional paid-in capital and bringing in new shareholders, the continued concentration among Nigerian entities remains a key vulnerability (see Exhibit 10). As of year-end of 2022, investment-grade shareholders accounted for 4% of paid-in capital and included contributions by the African Development Bank (Aaa stable), the Arab Bank for Economic Development in Africa (BADEA) (Aa2 positive), Africa Reinsurance Corporation (AfricaRe), and the Pension and the Savings funds of Government of Mauritius (Baa3 stable). While their contributions have limited the deterioration in the WASR to B3 at year-end 2022 from B2 previously, the AFC remains heavily exposed to Nigeria’s high credit risks. Out of the $1.2 billion in equity raised as of year-end 2022, $200 million are equity warrants issued by the CBN.

We expect the diversification in the shareholder base to continue but at a gradual pace. Namely, the AFC launched a rights issue in November 2022 geared toward existing shareholders with the aim of raising $557 million over the course of this year in case of full participation, of which almost $300 million have already been raised as of June 2023. The list of potential new investment-grade shareholders includes other MDBs in the region or abroad interested in channelling infrastructure investment in Africa.

Exhibit 9

85% of shareholdings are Nigeria based

Share of paid-in capital by shareholder

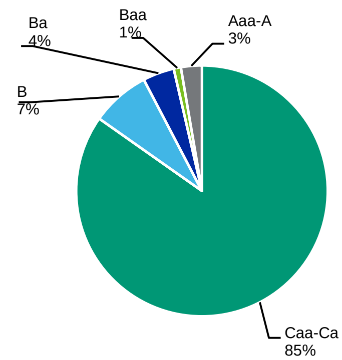


Sources: Africa Finance Corporation and Moody's Investors Service

Exhibit 10

Shareholder quality has deteriorated in line with Nigeria's country risk

Share of paid-in capital by shareholder rating



Sources: Africa Finance Corporation and Moody's Investors Service

The list of new shareholders onboarded since 2019 also includes South Africa's Public Investment Corporation, the governments of Egypt (B3 stable), Côte d'Ivoire, Sierra Leone, Guinea, the Democratic Republic of Congo (DRC, B3 stable) and Mauritius mentioned above, the Seychelles pension fund, in addition to existing ones like Togo (B3 negative), Gabon and Ghana. New shareholders added in 2023 include Botswana (A3 stable), Benin (B1 stable), Cameroon (B2 stable) through the Caisse nationale de prévoyance sociale (CNPS).

Callable capital contribution following the change in the Charter in 2020 remains marginal

Following the change in the Charter in December 2020 to introduce callable capital to new shareholders if they want to, the Government of Togo has contributed $15 million in callable capital in addition to its smaller share in already paid-in capital. In 2022, the Central Bank of Sierra Leone followed suit with $8 million, while in 2023, the Governments of Benin and Botswana each contributed $8 million of callable capital. The total $39 million is a symbolic contribution that represents less than 1% of total debt outstanding, and therefore has no impact on our “ca” assessment for contractual support. At the same time, the lesser priority of contractual sovereign shareholder support mirrors AFC's private-sector orientation and limits the potential for sovereign interference. This is important for successful infrastructure development, particularly as projects become more complex, as in the case of intraregional infrastructure projects.

Non-contractual willingness to support subfactor score: Medium

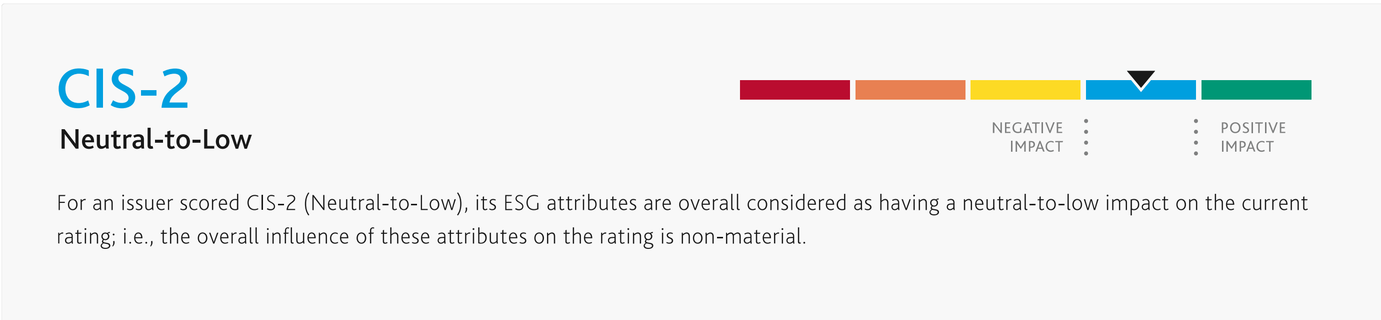
We assess the AFC’s non-contractual support as “Medium”. Although it has no obligation to do so, we believe that the CBN, the AFC’s largest shareholder, would provide support to the AFC if needed. This was most recently illustrated in 2023 by the CBN's participation in the rights issue and in 2020 by the $200 million equity warrants issued to the CBN. They may not be converted into shares at the end of the five-year period if the corporation is successful in boosting its capital base and chooses not to change the current structure of shareholdings where most shares are held by the private sector. Another way the Nigerian authorities could provide support in times of stress would be to buy more of the corporation's authorized capital (the CBN Act authorizes financial assistance for development initiatives). The CBN is also willing to see its shareholding diluted to a small extent if there is pan-African interest, in the form of other African governments buying a stake in the AFC, as long as the corporation remains private sector-led.

While shareholders' ability to support is constrained by low average rating, the corporation's focus on strategic infrastructure assets supports its non-contractual support among shareholders. For instance, the AFC's investment in special economic zones and ports infrastructure is viewed as key for members' growth, trade and diversification strategy (for example, Gabon, Togo, Benin). Similar considerations apply to key power projects or investments and the upstream oil and gas sector to secure access to energy.

ESG considerations

Africa Finance Corporation's ESG Credit Impact Score is Neutral-to-Low CIS-2

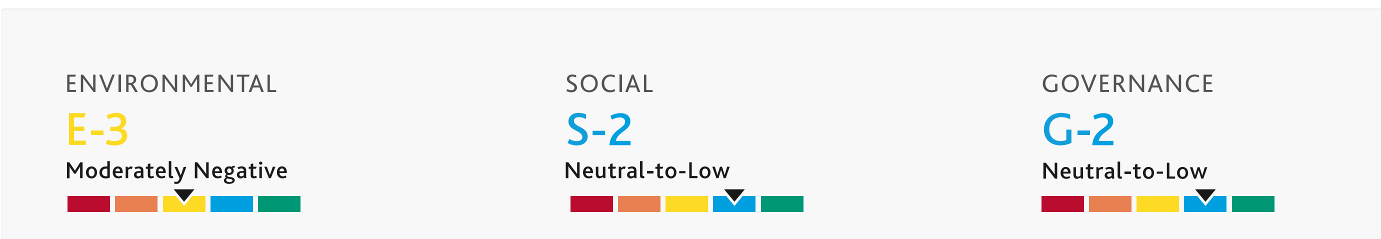
Exhibit 11
ESG Credit Impact Score



Source: Moody's Investors Service

AFC's credit impact score is neutral-to-low (**CIS-2**), reflecting moderately negative exposure to environmental risk and low exposure to social risk, with a solid governance profile that supports resilience to environmental exposure.

Exhibit 12
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

AFC's environmental issuer profile score is moderately negative (**E-3**), reflecting its exposure to borrowers in countries exposed to carbon transition risks. Moreover, many of AFC's borrowers in Sub-Saharan Africa are exposed to physical climate risks, mostly because of their reliance on large agricultural sectors and thus exposure to extreme weather conditions and natural disasters.

Social

AFC's social issuer profile score is neutral to low (**S-2**) which reflects low exposure across all social risk categories, supported by AFC's focus on promoting, in particular, sustainable development.

Governance

AFC's neutral to low governance issuer profile score (**G-2**) reflects a stringent prudential framework and sound governance principles.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

AFC secures $625 million Syndicated Loan with New Lenders from Middle East and Asia

On 29 May 2023, AFC announced that it has secured a $625 million syndicated loan with new lenders from the Middle East and Asia. Gulf Bank, National Bank of Ras Al-Khaimah, China CITIC Bank Corporation, Qatar National Bank, Doha Bank and Industrial Bank of Korea Limited joined the syndicate as first-time lenders to AFC, strengthening the Corporation's coalition of investors and global capital market access. The transaction was upsized from an initially planned $500 million following an oversubscription of 61%, reflective of the strong demand from investors.

AFC and Japan Bank for International Cooperation collaborate to accelerate energy transition in Africa

On 24 May 2023, AFC and Japan Bank for International Cooperation (JBIC, A1 stable), Japan's policy-based financial institution signed a Memorandum of Understanding (MOU) to collaborate on infrastructure projects that contribute to accelerating energy transition in Africa and promoting economic sustainability on the continent.

This collaboration aims to develop and finance infrastructure projects on the continent that contribute to accelerating Africa's path to net-zero in a pragmatic way. Priority projects include renewable energy technologies/systems (including green and blue hydrogen and ammonia), highly energy-efficient power plants and carbon capture and storage (CCS) technology amongst others. AFC supports the continent's energy transition by investing in renewable energy projects, supporting the development of energy infrastructure, and providing financing for energy efficiency projects.

AFC Investee Company, Infinity Power Finalizes Acquisition of Lekela Power in Africa's Biggest Renewable Energy Deal

On 20 March 2023, Infinity Power, a joint venture between Egypt's Infinity and UAE's Masdar, announced the completion of the acquisition of the entire shareholding of Lekela Power. The transaction makes Infinity Power the largest renewable energy company on the African continent. Infinity's key stakeholders include AFC and the European Bank for Reconstruction and Development (EBRD, Aaa stable). The transaction was funded through equity investment from shareholders and debt from Absa Corporate and Investment Banking (Absa CIB, Ba2 stable) and The Mauritius Commercial Bank Limited (MCB) (Baa3 stable).

Lekela currently operates 1 gigawatt (GW) of wind power projects in South Africa, Egypt and Senegal, and has a 1.8 GW project pipeline in various stages of development. The goal is to install and operate 2 GW of greenfield projects by 2025.

Green Climate Fund commits record $253 million to AFC's Infrastructure Climate Resilient Fund for Africa

On 21 March 2023, AFC has secured a $253 million commitment from the Green Climate Fund (GCF) towards its inaugural offering, the Infrastructure Climate Resilient Fund (ICRF). The GCF's junior first-loss equity investment into ICRF marks its single largest equity investment in Africa to date. Approved during the recently concluded 35th meeting of the GCF Board, this landmark transaction also represents GCF's biggest commitment to an Africa-wide multi-country program, facilitating AFC's innovative introduction of climate-resilient infrastructure as a new asset class in the African investment landscape.

With a target fund size of US$750 million, ICRF is an innovative finance instrument established to climate proof Africa's infrastructure by integrating scientific climate-resilient measures in the planning, design, development, construction and operation of infrastructure assets in alignment with the Paris Agreement on climate change.

Through ICRF, AFC Capital Partners will finance greenfield and brownfield infrastructure that is planned, designed, built and operated in a way that anticipates, prepares for, and adapts to the continent's changing climate conditions. ICRF will co-invest with AFC in opportunities that fit the Fund's climate mandate and investment criteria, with a focus on climate-resilient transport and logistics, energy systems, economic zones, and telecommunication and digital infrastructure.

Rating methodology and scorecard factors: Africa Finance Corporation - A3 negative

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			baa2	baa2
Capital position (20%)			baa2	
	Leverage ratio	baa2		
	Trend	0		
	Impact of profit and loss on leverage	0		
Development asset credit quality (10%)			b	
	DACQ assessment	b		
	Trend	0		
Asset performance (20%)			a2	
	Non-performing assets	a2		
	Trend	0		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			a1	a1
Liquid resources (15%)			aa2	
	Availability of liquid resources	aa2		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	0		
Quality of funding (35%)			a	
Preliminary intrinsic financial strength				a3
Other adjustments				-1
Operating environment		-1		
Quality of management		0		
Adjusted intrinsic financial strength				baa1
Factor 3: Strength of member support (+3,+2,+1,0)			Low	Low
Ability to support (50%)			b3	
	Weighted average shareholder rating	b3		
Willingness to support (50%)				
	Contractual support (25%)	ca	ca	
	Strong enforcement mechanism	0		
	Payment enhancements	0		
	Non-contractual support (25%)		Medium	
Scorecard-Indicated Outcome Range				A3-Baa2
Rating Assigned				A3

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Related websites and information sources

» Moody's Supranational web page

» Moody's Sovereign and supranational rating list

» Africa Finance Corporation (AFC)

Endnotes

1 Assuming full participation, the rights issue will raise $575 million in equity in 2023. The corporation expects an additional $250-$350 million in fully paidshares to materialize in the fourth quarter, in addition to the almost $300 million already raised during the first half of 2023

2 We measure the ALR by comparing projected net outflows over the next 18 months to discounted liquid assets. The numerator of the ALR, estimated net cash outflows, are outflows from mandate activities minus inflows from mandate activities plus debt repayments (both principal and interest). We include cash and cash equivalents, deposits with a term of less than one year held by financial institutions rated Baa3 or higher, Treasury assets rated A2 or higher, and committed, unrestricted and undrawn credit lines with prime lenders with a maturity greater than 18 months in the denominator.

3 Strength of member support can only provide an uplift to the stand-alone assessment as measured by the intrinsic financial strength (IFS) score where the F3 score is Moderate or higher. There is no downward adjustment to the IFS assessment for F3 scores at Low or Very Low.

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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